KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER EDITION

FEBRUARY/MARCH 2008

2008 Session of the Kentucky General Assembly

The 2008 General Assembly officially began on January 8th. As an "even year" session, the Legislature convened for sixty (60) days instead of thirty (30) as it does in the shorter "odd year" sessions. As an even year session, a new state budget for the 2008-2010 biennium will be prepared. The General Assembly will initially meet for fifty-eight (58) days before temporarily recessing on April 1, 2008 for the "veto period" during which the Governor may veto any legislation that has been passed thus far. The General Assembly is then scheduled to reconvene for two days beginning on April 14th to consider overriding any legislation vetoed by the Governor. The Session is scheduled to come to a close on April 15, 2008 when the General Assembly adjourns sine die. This schedule is subject to some ad hoc adjustment by the General Assembly although under no circumstances may it exceed sixty (60) total meeting days.

Some of the more important bills currently pending before the General Assembly are as follow:

House Bill 470

House Bill 470 contains the KTRS housekeeping proposals. Most of these proposals were also contained in last year's housekeeping bill, House Bill 461, that failed to become law. House Bill 470 largely provides technical and clean-up amendments that do not change current practice. A few of the highlights are as follow:

- Request that retirees be allowed to use out of state K-12 service in calculating their Daily Wage Threshold even if they have not purchased their out of state K-12 service.
- Request that a minimum Daily Wage Threshold be established.
- Request that members be allowed to remove their ex-spouses as beneficiaries even if they miss the sixty-day deadline to do so. This would not permit members to increase their retirement allowance or "pop up" to an Option I equivalent in the event that their ex-spouse later predeceases them.
- Request funding for an "ad hoc" Cost of Living Adjustment (COLA) in addition to the fixed 1.5% COLA provided every July 1 for members who have been retired at least twelve months (pro rata COLAs are provided to members who have been retired for less than 12 months). At this point, however, funding does not appear forthcoming to provide ad hoc COLAs for the next two years (see Executive Budget heading).

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- The request for an extension of the 100-day program that was contained in last year's House Bill 461 is not contained in this year's legislation for the reason that that program sunset effective June 30, 2007.

None of these requests would become law unless approved by the General Assembly and the Governor. Therefore, it is very important to read future KTRS newsletters carefully for further developments as either all, some, or none of these requests may eventually become law. The same is true for the other items of legislation discussed in this newsletter.

Senate Bill 65

Senate Bill 65 would provide university employees participating in the optional retirement plan (ORP) a six-month window to switch to KTRS after the time that tenure is normally achieved (six years), and to purchase their prior service under the ORP as service credit in KTRS. This bill would also provide all university employees, even those beyond the six-year and six-month window, a one-time opportunity to switch to KTRS and purchase prior service. This opportunity would expire on December 31, 2008. And finally, this bill would provide an alternative payment plan for the universities to satisfy their share of the unfunded liability of KTRS that would otherwise not have been paid with the introduction of the ORP.

The Executive Budget

The Executive Budget proposed for the 2008-2010 biennium allocates very limited financial resources among numerous competing agencies and groups in an effort to satisfy the many important priorities and needs of the Commonwealth.

House Bill 406, as proposed, and as it affects KTRS, provides the following:

- Funding for employer contributions.
- Payments for past cost of living increases.
- Payment for sick leave.
- Minimum value benefit adjustments.
- Amortized payments, with interest, on the amounts that were borrowed from the pension fund to pay for current medical costs for retirees.
- Continues the practice of borrowing from the pension fund to pay for medical insurance costs during the 2008-2010 biennium.

House Bill 406, as proposed, and as it affects KTRS, does **not** provide for the following:

- A requested supplemental employer contribution for the pension fund as recommended by the actuary.
- An ad hoc cost of living adjustment. Unless legislative changes are made, the COLA for July 1, 2008 and July 1, 2009 will be 1.5 per cent each year as provided by statute.

The KTRS Board of Trustees will devote its attention to continuing a good working relationship with the Governor, General Assembly and others in an educational effort that emphasizes the importance of retaining medical benefits for retirees and funding of the pension plan in a sound manner.

Once the 2008-2010 budget is enacted by the General Assembly, the results as it applies to KTRS will be reported to the membership.

~ House Bill 600 ~

This bill, known as "The Kentucky Public Pension Protection and Modernization Act", was drafted by Governor Beshear's administration and was unveiled to the public on February 21, 2008.

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Proposed statutory changes for both the Kentucky Retirement Systems (KRS) and Kentucky Teachers' Retirement System (KTRS) are included in the bill. Traditionally, changes of this nature have been treated in separate bill proposals for each retirement system.

Current Members and New Members

It is important to remember that the changes proposed to the current KTRS law by HB 600 affect only new members employed in a KTRS position on or after July 1, 2008. Benefits for members employed before July 1, 2008 as well as retirees are not impacted.

Any statutory changes that may impact new members joining KTRS on or after July 1, 2008 will be communicated in a later newsletter following the close of the legislative session.

KTRS Board of Trustees

House Bill 600 proposes to place a limit of three consecutive four-year terms for elective members of the KTRS Board of Trustees. After an absence of four years, an elective trustee may be elected again to serve on the Board of Trustees.

Elective Board of Trustees members in the past have not had nor do they currently have any statutory limitations.

Kentucky Public Pension Financing Advisory Commission

House Bill 600 proposes to create the Kentucky Public Pension Financing Advisory Commission.

Senate Committee Substitute to HB 600

The Senate filed a Committee Substitute to HB 600 on March 12, 2008. The Senate Committee Substitute to HB 600 made no changes in the provisions for KTRS. It did, however, set the composition of the Advisory Commission to seven members with investment experience, three of whom are appointed by the Governor, two of whom are to be appointed by the President of the Senate, and two of whom are to be appointed by the Speaker of the House. The Senate Committee Substitute will be sent to the House for concurrence.

Neither version of the bill has passed and additional changes could still be made.

KTRS will keep the membership apprised concerning the status of this **proposed** legislation.

Disability Earnings Limitation

In 2002, the General Assembly enacted legislation that permitted new disability retirees to earn in permitted employment a sum, that when added to their disability retirement allowance, would equal, but not exceed, $40,000. Retirees who exceeded this total disability retirement allowance/ earnings limitation would be subject to a dollar for dollar reduction in their disability retirement allowance. This provision was codified in KRS 161.661(12) and permitted the Board to occasionally increase the earnings limitation by the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5%. At its December 17, 2007 meeting, the KTRS Board of Trustees increased the $40,000 earnings limitation by the previous year's CPI so that beginning in calendar year 2008 the earnings limitation is now $41,280.

Supreme Court Ruling on Treatment of Teachers' Pensions in Divorce Proceedings

Under the KTRS statutes, there has been for many years a provision that clearly states that during dissolution of marriage proceedings (divorce) teachers' retirement allowances are not subject to classification or division as marital property and that they cannot even be considered as an "economic circumstance" when dividing other assets of the marriage. In other words, teachers' retirement allowances could not be considered at all during a divorce. This provision is codified under KRS 161.700(2).

In the late 1990's, however, this protection became less certain when a divorce statute, KRS 403.190(4), was amended to state that if the retirement benefits of one spouse are "excepted" from classification as marital property, then the retirement benefits of the other spouse are excepted as well, but neither spouse shall enjoy a greater exception than the other. The language of this statute is a little confusing and left open the question whether it overrode the clear language of KRS 161.700(2). As a result, it appears that for several years different Family Courts of the Commonwealth were issuing different interpretations of whether, and to what extent, teachers' retirement allowances should be considered in divorce proceedings. Most commonly, from the limited feedback received by KTRS, it appears that Family Courts either ruled that teachers' retirement allowances remained exempt from consideration in divorce proceedings given the clear language of KRS 161.700(2), or that they were subject to consideration to the extent that they exceeded the retirement benefits of the non-teacher spouse.

On September 20, 2007, the Kentucky Supreme Court rendered an opinion addressing this issue that appears to conclude that teachers' retirement allowances are at least potentially subject to consideration in divorce proceedings due to the amendment of KRS 403.190(4) in the late 1990's. This case is Shown v. Shown, 2005-SC-000855. Any member engaged in divorce proceedings is strongly advised to have his or her attorney read this case and the governing statutes very carefully to determine whether they might apply to the individual facts and circumstances of his or her case. Court opinions often leave certain questions unanswered and are usually subject to at least some degree of interpretation. Regardless of a Court's ruling, KTRS cannot accept Qualified Domestic Relations Orders as KRS 161.700(1) prohibits the attachment or assignment of a retiree's retirement allowance except for the payment of child support or federal taxes.

Blue Ribbon Commission on Public Employees Retirement Systems

The 24-member Blue Ribbon Commission on Public Employees Retirement Systems that was established in 2007 by former Governor Fletcher to study KTRS and Kentucky Retirement Systems (KRS) held its final meeting on December 18, 2007. At this final meeting, the Commission voted on recommendations made by Gabriel Roeder Smith & Company, the actuarial firm employed to assist the Commission in discharging its mission. It is very important to remember that the Blue Ribbon Commission's role was only to provide recommendations to the Governor and the General Assembly, none of which will take effect unless they are enacted into law. Many of the Blue Ribbon Commission recommendations were included in the Governor's Pension Bill, House Bill 600, which is discussed elsewhere in this newsletter.

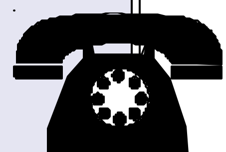
Keep Your
Address Current!
this keeps you informed of all
the late-breaking news from
KTRS!!

2007 TAX YEAR INFORMATION

KTRS mailed the 1099R tax forms during the last week of January 2008. The tax statement contains confidential information and can only be mailed to the member's address currently on record with KTRS. For your privacy and protection, the member, power of attorney, or beneficiary, must submit a written request to KTRS in order to send the 1099R form to an address that is different from the one currently on record with KTRS. The written request may be mailed to KTRS, or faxed to (502) 573-0254. This special request will not change your permanent address record unless you specifically request that it be changed. You may also visit the KTRS Website at www.ktrs.ky.gov for additional information and forms, including the change of address forms.

To request a duplicate for a lost 1099R form, please call 1-800-618-1687. The KTRS Call Center staff will verify your correct name and address for mailing the duplicate form and for the permanent record file.

KTRS **502/848-8500**
Toll Free **800-618-1687**
KERS **502-696-8800**
Toll Free **800-928-4646**
Deferred
Compensation **502-573-7925**
Toll Free **800-542-2667**
KY Revenue
Cabinet **502-564-4581**
IRS **800-829-1040**



THE EASY EXPLANATION

BOX 1
Shows your total KTRS pension benefit prior to withholdings.

BOX 1 *(less)* BOX 2a= BOX 5

BOX 2a
Shows the taxable portion of your benefit. If blank, box 2b "Taxable Amount Not Determined" should be marked. In this case, please see your tax advisor.

BOX 5
Shows the nontaxable portion of the total. This amount is **NOT** reported anywhere on your tax return. It is an 'information only' box.

BOX 9b
This box will **only** show an amount in the first year of retirement. It provides the total amount of previously taxed contributions.

Form 1099R 2007 OMB No. 1545-0119 Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This information is being furnished to the Internal Revenue Service.		**Payer's Federal ID Number**	**STATE** COPY 1 - File with Recipient's STATE Tax Return
Recipient Information	1 Gross Distribution **BOX 1**	2a Taxable Amount **BOX 2a**	2b Taxable Amount Not Determined ☐ Total Distribution ☐
	3 Amount in Box 2a Eligible for Capital Gain Election	4 Federal Income Tax Withheld	5 Employee Contributions **BOX 5**
Recipient Identification Number	6 Net unrealized appreciation in employer's securities	7 Distribution Code / IRA/SEP/Simple ☐	8 Other
Payer's Full Name and Address KENTUCKY TEACHERS' RETIREMENT SYSTEM 479 VERSAILLES ROAD FRANKFORT KY 40601-3800	9a Your Percentage of Total Distribution	9b Total Emp. Contribution **BOX 9b**	10 State Tax Withheld
	11 State/Payer's State Number **KY 077156**	12 State Distribution	State Taxable Percentage %

BOXES 10 - 13 Shows the state tax information. KTRS does not withhold state taxes. Only pension income attributable to service credit earned after January 1, 1998, is subject to **Kentucky** state taxes. Outside Kentucky, your resident state tax regulations apply.

KENTUCKY STATE TAX LAWS

The good news is that when calculating your Kentucky state income tax liability, there is a $41,110 EXCLUSION for total state taxable pension income on the Form 740 Kentucky Income Tax Return. Your Form 740 begins with the federal adjusted gross income (AGI). Schedule M of the KY state return allows adjustments to the federal AGI. Schedule P of the KY state return is NOT always required; it reports pension income in more detail. You may want to take this newsletter to your tax preparer.

Other Considerations . . .

You must compute the state taxable amount. Multiply the state taxable percentage (next to box 12) by the federal taxable amount in box 2a to arrive at the state taxable amount. DON'T FORGET TO APPLY THE KENTUCKY PENSION INCOME EXCLUSION AGAINST THE STATE TAXABLE AMOUNT.

Kentucky Tax Form 740 - Schedule M

Add all your 1099R, Box 2a, *FEDERAL taxable amounts.*

IF THE TOTAL IS UNDER $41,110 YOU DO NOT HAVE TO FILL OUT KY 740 - SCHEDULE P. Just subtract the amount from the federal AGI by entering the amount on Part II, line 9. Therefore, you do not owe any state taxes on pensions.

IF THE TOTAL IS OVER $41,110 YOU MUST FILL OUT KY 740 - SCHEDULE P. Even if you are required to fill out a KY 740 - Schedule P, most retired teachers still do not owe any state taxes.

Kentucky Tax Form 740 - Schedule P

Add all your 1099R, *STATE taxable amounts. Enter the total on Part II of Schedule P.*

IF THE TOTAL IS UNDER $41,110 YOU DO NOT OWE ANY KENTUCKY STATE INCOME TAX ON PENSIONS. Follow instructions on completing the schedule.

IF THE TOTAL IS OVER $41,110 YOU OWE KY STATE TAXES ON THE AMOUNT ABOVE THE EXCLUSION AMOUNT. Again, follow instructions on completing the schedule.

CAUTION:

*Computing a Kentucky state taxable amount does not mean you owe Kentucky state taxes!!
*The requirement to prepare KY 740 - Schedule P does not mean you owe state taxes!

Retired Prior to January 1, 1998	Retired After January 1, 1998 *TOTAL FEDERAL RETIREMENT INCOME* ***LESS THAN $41,110***	Retired After January 1, 1998 *TOTAL RETIREMENT INCOME* ***MORE THAN $41,110***
KTRS remains as KY STATE NONTAXABLE income. If you receive more than $41,110 federal taxable pension income you still must prepare KY 740 - Schedule P.	If total federal taxable income is less than $41,110 then all pension income is KY STATE NONTAXABLE income.	You must fill out KY 740 - Schedule P on your State Income Tax Return. Follow the instructions. Your 1099R will have the information needed to complete the KY 740 - Schedule P.

Facts About Smoking — Did You Know ...

- **20 minutes after quitting:** Your heart rate and blood pressure drop.*(Effect of Smoking on Arterial Stiffness and Pulse Pressure Amplification, Mahmud, A, Feely, J. 2003. Hypertension:41:183.)*
- **12 hours after quitting:** The carbon monoxide level in your blood drops to normal.*(US Surgeon General's Report, 1988, p. 202)*
- **2 weeks to 3 months after quitting:** Your circulation improves and your lung function increases.*(US Surgeon General's Report, 1990, pp.193, 194,196, 285, 323)*
- **1 to 9 months after quitting:** Coughing and shortness of breath decrease; cilia (tiny hair-like structures that move mucus out of the lungs) regain normal function in the lungs, increasing the ability to handle mucus, clean the lungs, and reduce the risk of infection. *(US Surgeon General's Report, 1990, pp. 285-287, 304)*
- **1 year after quitting:** The excess risk of coronary heart disease is half that of a smoker's.*(US Surgeon General's Report, 1990, p. vi)*
- **5 years after quitting:** Your stroke risk is reduced to that of a nonsmoker 5 to 15 years after quitting.*(US Surgeon General's Report, 1990, p. vi)*
- **10 years after quitting:** The lung cancer death rate is about half that of a continuing smoker's. The risk of cancer of the mouth, throat, esophagus, bladder, cervix, and pancreas decreases. *(US Surgeon General's Report, 1990, pp. vi, 131, 148, 152, 155, 164,166)*
- **15 years after quitting:** The risk of coronary heart disease is that of a non-smoker's. *(US Surgeon General's Report, 1990, p. vi)*
- **The Kentucky Employees Health Plan offers smoking cessation assistance.** Log on to: http://personnel.ky.gov/benefits/wellness/smokecess.htm for more information.

2008 EFT/Direct Deposit Payment Dates

January 29	July 29
February 27	August 28
March 28	September 26
April 28	October 29
May 29	November 26
June 27	December 29

These dates also reflect the automatic insurance payment dates for 2008.

Retirees Under Age 65

CONGRATULATIONS NEW NON-SMOKERS!!!

The Kentucky Employees Health Plan/ KTRS 2008 Open Enrollment (Under Age 65) has concluded and we are happy to report 58 KTRS retirees were able to change their smoking status to "non-smoking". Note: Smoking status cannot be changed mid-year. However, those who changed their smoking status during open enrollment were able to certify they had not smoked in the last two months.

Reminders for Those Turning Age 65 in the Next Twelve Months

- You must enroll in Medicare Part B three months prior to turning 65. The current premium for this coverage is $96.40 per month.
- Medicare rules will not allow you to be enrolled in two Medicare Advantage plans at the same time.
- The KTRS MEHP Prescription Drug Plan, currently administered by Medco, is considered creditable coverage under Part D of Medicare. There is a $150.00 deductible to be met each year for drugs purchased at participating retail pharmacies.

Retirees Age 65 & Over

Medicare Rates for 2008

The standard Medicare Part B monthly premium is $96.40 in 2008, an increase of $2.90 or 3.1% from the 2007 rate of $93.50.

In 2008, approximately 5 percent of Medicare Part B enrollees with higher incomes will pay a higher Part B premium based on their income. Please contact Medicare at 1-800-633-4227 or Social Security at 1-800-772-1213 if you need to discuss your Part B premium.

Please note: Serious gaps in KTRS medical coverage can occur for those retirees and/or spouses who choose not to enroll in Medicare Part B when first eligible or who fail to continue to pay their Medicare Part B premium each month.

The 2008 monthly cost for retirees and spouses covered by the KTRS MEHP is $278.00 per person as compared to $283.00 in 2007. Currently, KTRS will pay the full premium rate for retirees with 20 or more years unless you were hired July 1, 2002 or after. Retirees with less than 20 years of service credit will pay a premium based on years of service credit. Spouses of KTRS retirees pay full premium cost for their coverage.

Medicare Part D Update

The KTRS self-funded Medicare Eligible Prescription Drug Plan, currently administered by Medco, will remain intact in 2008 and continue to be the primary payer of drug claims for all eligible retirees over the age of 65, unless they are enrolled in one of the Medicare Part D drug plans. The 2008 Medicare required Notice of Creditable Coverage was mailed notifying you of the fact that the KTRS Prescription Drug Plan is, on average for all plan participants, expected to pay out as much as the standard Medicare prescription drug coverage will pay and is considered creditable coverage. This means that you will not be required to pay extra if you later decide to enroll in Medicare prescription drug coverage. Please note that while most retirees will find it in their best financial interest to continue prescription coverage through KTRS, low-income Medicare beneficiaries, or those with both Medicaid and Medicare should contact Social Security to determine if it is in their best financial interest to enroll in Medicare Part D and waive the KTRS prescription plan. If enrolled in Medicare Part D, you will not be eligible for the KTRS prescription drug coverage. Medical coverage can remain intact for anyone enrolled in Medicare Part D.

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